CANRON LIMITED

Annual Report 1976

Annual Meeting:

The sixty-first annual meeting of shareholders will be held in Salon Viger, Château Champlain Hotel, Montreal, Quebec, on Wednesday, April 27, 1977, at 11:00 a.m.

Head Office:

1 Place Ville Marie,
Montreal, Quebec
H3B 2A8

Stock Listings:

Montreal, Toronto and Vancouver Stock Exchanges

Transfer Agent:

Montreal Trust Company, Montreal, Toronto, Halifax, Winnipeg, Regina, Calgary, Vancouver

Registrar:

The Royal Trust Company, Montreal, Toronto, Halifax, Winnipeg, Regina, Calgary, Vancouver

Contents:

Si vous préférez recevoir ce rapport annuel en français, prière d'en aviser le secrétaire de
Canron Limitée,
1 Place Ville Marie,
Montréal, Québec,
H3B 2A8

CANRON

Growth in Western Canada

Sales of the company's products and services in Western Canada have more than doubled over the past five years, and now account for nearly one quarter of total Canadian sales.

Canron's presence in Western Canada took substance in 1958 with its acquisition of Western Bridge, a structural steel fabricator in Vancouver. In 1973 the company acquired a cast iron water pipe plant in Calgary. The Pipe Division has recently started construction of a 100,000 sq. ft. plant at Cochrane near Calgary to manufacture Hyprescon prestressed concrete water pipe to complement the cast iron product. This plant will initially manufacture pipe in the 16″ to 54″ diameter range.

A modernization program to increase capacity at Western Bridge has been underway for several years. The external appearance of the buildings and surrounding yards is being improved to integrate the property into the City of Vancouver's plan for an aesthetically pleasing industrial complex close to the downtown area.

In April, the Calgary iron pipe plant demonstrated the positive impact of modern pollution control techniques. Installation of environmental equipment costing over $800,000 has eliminated the undesirable plume of smoke and particulates normally associated with an iron foundry.

Each of these operations and their respective products are contributing to the rapid expansion of the industrial base in the west and serve the needs of the growing population.

Croissance dans l'Ouest du Canada

Dans l'Ouest du Canada, les ventes de nos produits et services ont plus que doublé depuis cinq ans, atteignant aujourd'hui près du quart de notre chiffre d'affaires au Canada.

La présence de Canron dans l'Ouest du Canada s'est affirmée en 1958 avec l'acquisition de Western Bridge, entreprise vancouvéroise de fabrication de charpentes d'acier. En 1973, la Compagnie se portait acquéreur d'une usine de tuyaux en fonte de fer située à Calgary. La division des tuyaux a récemment entrepris la construction d'une usine de 100 000 pieds carrés à Cochrane, près de Calgary, où elle se propose de fabriquer des tuyaux d'aqueduc en béton précontraint Hyprescon, afin d'élargir encore la gamme des articles qu'elle offre. Au début, la nouvelle usine fabriquera des tuyaux de diamètres allant de 16″ à 54″.

Un programme de modernisation visant à accroître la capacité de production de Western Bridge se poursuit depuis plusieurs années. Les façades des bâtiments et les terrains environnants ont été améliorés conformément au plan municipal de Vancouver, qui vise à rendre plus agréable le complexe industriel voisin du centre de la ville.

Depuis avril, l'usine de tuyaux de fonte de Calgary bénéficie des effets favorables des techniques modernes de dépollution: la mise en place d'un matériel dont le coût a dépassé $800 000 a éliminé les fâcheuses émissions de fumée et de particules qui découlent de la fabrication de la fonte de fer.

Ces divers établissements et leurs productions respectives contribuent à l'expansion rapide de l'infrastructure industrielle de l'Ouest et répondent aux besoins d'une population croissante.

Canron Ltd

Second Quarter 1976

Report to Shareholders

Deuxième trimestre 1976

Rapport aux actionnaires

CANRON

1, Place Ville-Marie,
Montréal, Québec.

CANRON **Consolidated financial summary s**
Sommaire de l'état financier cons

(Unaudited—Thousands of dollars except per share amounts) (Chiff

STATEMENT OF EARNINGS

	2nd Quarter 2e Trimestre	
	1976	1975
Sales	**$82,714**	$89,023
Cost of Sales	**65,814**	74,060
Selling and Administrative	**8,223**	8,164
Interest	**1,154**	2,335
Income Taxes	**3,648**	2,012
NET EARNINGS	**$3,875**	$2,452
Earnings Per Share:		
Basic	**$1.52**	$0.95
Fully Diluted	**$1.44**	$0.91

SOURCE AND APPLICATION OF FUNDS

	6 1er
FUNDS PROVIDED	**1976**
Net Earnings	**$6,634**
Depreciation & Amortization	**3,269**
Reduction on Long term Receivables	**32**
Long Term Debt Issued	**—**
	$9,935
FUNDS APPLIED	
Fixed Asset Additions (net)	**$4,198**
Repayment Long Term Debt	**1,356**
Preferred Shares Redeemed	**332**
Dividends	**2,161**
	$8,047
WORKING CAPITAL	
—Increase	**$ 1,888**
—Beginning Balance	**60,520**
—Closing Balance	**$62,408**

Signed on behalf of the Board
H. J. Lang, Director
M. W. Mackenzie, Director

onths ended June 30, 1976
lé, semestre terminé le 30 juin 1976

on vérifiés — en milliers de dollars, sauf les montants par action)

6 Months 1er Semestre 1976	1975	REVENUS
$150,226	$170,110	Ventes
118,766	141,496	Coût des ventes
16,225	15,780	Frais de vente et d'administration
2,354	4,684	Intérêts
6,247	3,668	Impôts sur le revenu
$6,634	$4,482	BÉNÉFICE NET
		Bénéfice par action:
$2.59	$1.73	de base
$2.46	$1.66	entièrement dilué

iths iestre 1975	PROVENANCE ET UTILISATION DES FONDS
	PROVENANCE DES FONDS
$4,482	Bénéfice net
3,372	Amortissements
160	Réduction des montants à recevoir à long terme
3,500	Emission de dette à long terme
$11,514	
	UTILISATION DES FONDS
$3,678	Nouvelles immobilisations (net)
887	Réduction de la dette à long terme
28	Rachat d'actions privilégiées
1,665	Dividendes
$6,258	
	FONDS DE ROULEMENT
$ 5,256	—Augmentation
46,869	—Solde à l'ouverture
$52,125	—Solde à la fermeture

Signé au nom du Conseil d'administration:
H. J. Lang, administrateur
M. W. Mackenzie, administrateur

CANRON
LIMITED

To the Shareholders:

Net earnings for the first six months of 1976 were $6,634,000 or $2.59 per common share compared with $4,482,000 or $1.73 per share last year. Sales in this period were $150,226,000 against $170,110,000, last year.

Second quarter 1976 net earnings were $1.52 per share against $0.95, while sales of $82,714,000 were 7% below last year.

The factors which contributed to increased earnings in the first quarter continued in the second; i.e. good performance on completed contracts in the structural divisions, excellent results in the machine tool division, elimination of a loss operation and substantially lower interest costs. The reduction in interest costs accounted for $0.48 of the $0.86 gain in earnings for the six months.

Backlog of orders increased $17 million in the second quarter to $212 million as a result of strong bookings in the Western Bridge and Mechanical divisions.

Reduced industrial activity in Canada and spending constraints by provincial and municipal governments will continue to have an adverse effect on several of the company's Canadian divisions. Conversely, United States operations are experiencing stronger demands.

The Canadian government has proposed revisions to its anti-inflation program, the stated purpose of which is to overcome major inequities in the existing regulations. We share fully the contrary opinions being expressed throughout Canada by business and other groups that the proposed revisions are in fact potentially harmful and, if implemented, could cause serious dislocations in many areas of the national economy.

We do not look for any real improvement in general business conditions in Canada during the second half of the year. However, the company's net results for the year should parallel those of the first half, and earnings are expected to be at about the same level as last year on a lower volume of sales.

H. J. Lang
Chairman and
Chief Executive Officer

Montreal, Que.
July 28, 1976

CANRON
LIMITEE

Aux actionnaires:

Pour le premier semestre de 1976, les bénéfices nets ont atteint $6 634 000 ($2.59 par action ordinaire) contre $4 482 000 ($1.73 par action) l'année dernière. Les ventes de la période, qui avaient été de $170 110 000 l'an passé, se sont élevées à $150 226 000.

Pour le deuxième trimestre de 1976, le bénéfice net s'établit à $1.52 par action contre $0.95, et les ventes ont été de 7 p. cent inférieures à celles de l'année dernière, n'atteignant que $82 714 000.

Les éléments qui ont contribué à l'amélioration des bénéfices au premier trimestre ont aussi favorisé ceux du deuxième: bonne exécution de contrats dans les divisions des charpentes, l'excellente performance de nos divisions fabricant des machines-outils, élimination d'une exploitation déficitaire, et réduction substantielle des frais financiers. La réduction des frais financiers, à elle seule, a apporté 48 des 86 cents d'amélioration enregistrés dans les bénéfices pour le premier semestre.

Les commandes en carnet ont augmenté de $17 millions au deuxième trimestre pour atteindre $212 millions, la division Western Bridge et celle des constructions mécaniques ayant bénéficié d'une demande croissante.

Le ralentissement de l'activité industrielle au Canada et les contraintes financières imposées par les pouvoirs provinciaux et municipaux continueront à avoir des effets défavorables sur l'activité de plusieurs des divisions canadiennes de la Compagnie. Aux Etats-Unis, par contre, les exploitations bénéficient d'une accélération de la demande.

Le gouvernement fédéral prétend apporter à son programme de lutte contre l'inflation des modifications dont l'intention déclarée est de faire disparaître les principales injustices que renferment les règlements actuels. Nous nous rallions sans réserve à l'opinion contraire exprimée dans tout le Canada par les milieux des affaires et autres groupes intéressés; nous croyons nous aussi que les modifications prévues peuvent être nocives, et que leur mise en application pourrait entraîner de sérieuses perturbations dans de nombreux secteurs de l'économie nationale.

Nous ne nous attendons à aucune amélioration substantielle de la conjoncture au Canada durant le second semestre. Néanmoins, les résultats nets de la Compagnie, pour l'exercice entier, devraient atteindre un niveau comparable à ceux du premier semestre, et le bénéfice devrait être à peu près le même que pour le dernier exercice, malgré une régression des ventes.

Le président du Conseil
et chef de la direction

H. J. Lang

Montréal, Qué.
Le 28 juillet 1976

Montréal, Québec,
H3B 2A8

Highlights

	(in thousands of dollars – except per common share figures)		
	1976	1975	Increase (Decrease)
Sales			
Quarterly			
First	**$ 67,512**	$ 81,087	(16.7)%
Second	**$ 82,714**	$ 89,023	(7.1)%
Third	**$ 80,985**	$ 87,509	(7.5)%
Fourth	**$107,266**	$108,331	(1.0)%
Year	**$338,477**	$365,950	(7.5)%
Earnings (before extraordinary)			
Amount	**$ 12,983**	$ 13,565	(4.3)%
% of Sales	**3.8%**	3.7%	2.7%
Order Backlog at Year-end	**$206,105**	$192,612	7.0%
Working Capital	**$ 61,764**	$ 60,520	2.1%
Capital Expenditures	**$ 13,306**	$ 9,420	41.3%
Per common share			
Earnings (before extraordinary)			
Quarterly			
First	**$ 1.07**	$ 0.78	37.2%
Second	**$ 1.52**	$ 0.95	60.0%
Third	**$ 1.40**	$ 1.00	40.0%
Fourth	**$ 1.06**	$ 2.58	(58.9)%
Year	**$ 5.05**	$ 5.31	(4.9)%
Net Earnings	**$ 5.05**	$ 4.41	14.5%
Dividends paid	**$ 1.60**	$ 1.30	23.1%
Book Value	**$ 27.56**	$ 24.16	14.1%

Common Share Market Information

1976	High	Low	Close	Shares Traded	Dividends Paid
First quarter	$22¾	$17⅞	$20⅛	233,232	$0.40
Second quarter	$23½	$20¼	$21⅝	129,208	$0.40
Third quarter	$24¼	$21	$23⅜	190,723	$0.40
Fourth quarter	$24¼	$19⅛	$23	178,737	$0.40
Year	$24¼	$17⅞	$23	731,900	$1.60
1975	$20¼	$15¾	$18	216,906	$1.30

Valuation Day (Dec. 22, 1971) share prices:

Common	$19.38
Preferred – 1956 series	$70.00

Directors' Report to the Shareholders

1976 was another good year for Canron. Net earnings and sales were at the second highest historical level, only slightly below the previous year's records. The year did not represent a buoyant economic period for businesses which rely to a large degree on capital investment in new manufacturing equipment and plants. However, the Company's diversity of products with sales in foreign as well as domestic markets provided a reasonably good balance between the strong and the weak areas.

Financial

The Company's sales in 1976 were $338 million, down 7.5% from the record level of $366 million in the previous year. Over half of this decrease resulted from the disposal late in 1975 of an unprofitable cast iron water pipe manufacturing facility in the United States. In Canada, sales of pressure water pipe were below the exceptionally high 1975 volume due mainly to lower spending by municipalities. The Foundry Division sales were up substantially as a result of strong demand for iron castings by the steel industry. Major contracts carried over from prior years and reasonable market conditions early in the year produced record volume for the structural steel divisions. Machinery and equipment sales improved in the United States where Pacific Press Division maintained its upward trend in sales of hydraulic presses and shears to metal forming customers. Deliveries of track maintenance equipment to railroads in the U.S., Europe and most other markets were lower but this was not considered indicative of any general fall-off in demand but rather a matter of timing of major orders, particularly for United States railroads. The volume of business in the Canrep Division (formerly known as Railway and Power Engineering Corporation), one of the largest distributors of industrial products, reflects the general softening of business in secondary manufacturing industries in Canada.

Net earnings were $5.05 per common share, down from $5.31 on a comparable basis in 1975. Earlier in the year it had been expected that the 1975 profit level would be maintained. This would have been achieved had it not been considered necessary to take a substantial write-down in the fourth quarter of railway equipment and parts inventories at the Company's European operations. Profitability was also adversely affected by Anti-Inflation Board constraints on normal market pricing conditions and by severe competition in several markets. However, a reasonably favourable mix resulted in a continuation of the upward trend of the ratio of net earnings to sales, which at 3.8%, was a slight increase over the previous year.

The financial position of the Company continued to improve with net short-term borrowing down to $7.5 million at year end. This resulted in sharply lower interest costs of $4.4 million for the year, a reduction of $3.6 million from 1975. Key financial ratios at the end of 1976 were generally in line with the Company's long term financial objectives. The Company has substantial unused lines of bank credit and more financing flexibility than in recent years.

Dividends

Common share dividends paid in 1976 totalled $1.60 per share compared to $1.30 in 1975. The quarterly dividend was increased from 40 cents to 43 cents per share, or $1.72 on an annualized basis, effective with the January 1977 payment. The new dividend rate reflects the maintenance of a higher level of earnings and conforms with the constraints imposed by Anti-Inflation Board regulations.

Capital Expenditures

Capital expenditures totalled $13.3 million for the year. Major items included the completion of additional facilities for Pacific Press Division and commencement of construction of a new "Hyprescon" concrete water pipe plant in Alberta and enlarged Mechanical Division shop facilities in Trois-Rivières, Québec. An extrusion plant for small diameter plastic pipe was acquired in Saint John, N.B., to supplement the Quebec manufacturing facilities supplying plastic products to Eastern Canada.

H. J. Lang
Chairman and Chief Executive Officer

C. S. Malone,
President and Chief Operating Officer

Next year's expenditures are planned to be at about the same level as 1976. These expenditures, other than the completion of current expansion projects, will be mainly for cost reduction and further improvement in environmental operating conditions.

Board of Directors and Canron Personnel

It is with deep sorrow that we record the death of Mr. Ross Clarkson, an Honorary Director of the Company. Prior to his retirement in 1967 he had served for 17 years as a most valuable and highly respected member of the Board of Directors.

During the year there were in addition to seven scheduled meetings of the Board, six meetings of the Executive Committee and two meetings of the Audit Committee. There was a high level of attendance at all meetings.

Management appointments during the year included W. S. Cullens as Executive Vice President; B. E. Jackson, Group Vice President of the Structural and Mechanical Group; G. Ward-Hall, General Manager of Western Bridge Division; G. R. Masson, General Manager of Pressure Pipe Division; and P. Goël, General Manager of Matisa.

This year's report focuses on the people of Canron through the medium of photographs. The Company, by its organization style, encourages a large degree of delegation of authority throughout the various levels of supervision. This creates an environment for self-development, individual initiative and job satisfaction. A great deal of the Company's success has been due to the enthusiastic manner in which management at all levels have responded to their responsibilities. One example is a continuing improvement in the areas of industrial accident prevention and working environment. The Board of Directors takes this opportunity to express its sincere appreciation to all employees for their contribution, which enabled the Company to achieve another successful year.

Anti-Inflation Program

There is much current debate on the results to date and future handling of the Anti-Inflation program in Canada. While the rate of inflation in Canada declined to about 7% for 1976, the AIB can only claim partial credit for this result. The effects of a world-wide economic slow down and tight monetary conditions were also major contributing factors. The Canadian business community has generally supported the program to date. However, it is growing more evident that the program's restraint of corporate earnings discourages much needed capital expenditures for expansion and improvement of industry and creation of employment opportunities. For these reasons, we feel the program should be removed immediately.

Outlook

The outlook for 1977 varies with the types of products and also with market areas. Our main concern will be the level of capital investment in Canada. The present demand in most industrial markets in this country is very poor. For example, surplus capacity in the structural steel fabrication industry has resulted in abnormally low selling prices. Current predictions for slow growth this year are generally due to unresolved economic and political problems and uncertainty about the future of Anti-Inflation controls. The outlook for the Company's operations in the U.S. is quite favourable. We also expect better results from the European operations.

At the beginning of 1977 the backlog of orders was $206 million, $13 million higher than the previous year. About 80% of the work is scheduled for completion during the year. On balance the Company expects a satisfactory year and is well poised to take advantage of positive opportunities as they arise.

On behalf of the Board,

H. J. Lang

Chairman and Chief Executive Officer

C. S. Malone

President and Chief Operating Officer

Montreal, Quebec
March 31, 1977

Operations

Eastern Structural Division

1976 was an active year for Eastern Structural Division and many major contracts were brought to a successful conclusion. These included the erection of precast concrete beams and metallic roof of the Olympic Stadium in Montreal; a hot strip mill for Stelco in Ontario; Sidbec-Dosco steel mill expansion in Quebec; a processing plant in Indonesia for International Nickel Company; the Exmibal nickel mining project in Guatemala; and The Royal Bank Plaza in Toronto.

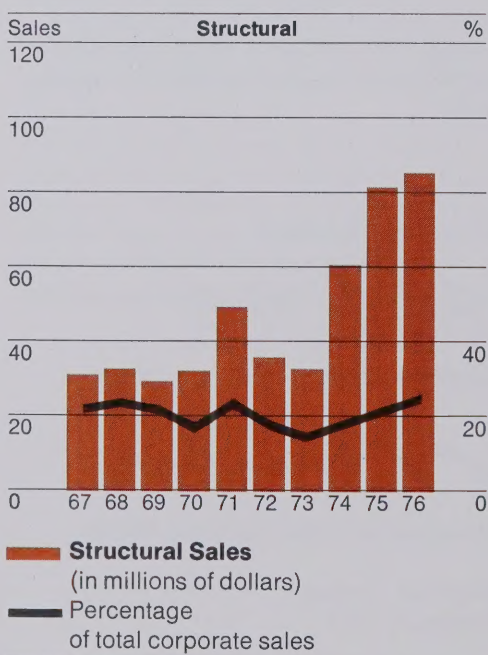
Orders booked in 1976 rose slightly from the 1975 level. The first quarter of 1976 was particularly strong while the last two quarters showed a decline. This trend is expected to continue into 1977. The capacity of the Canadian structural steel industry is approximately double the demand experienced in 1976, and forecasts for the construction industry point to decreased volume and lower prices throughout 1977.

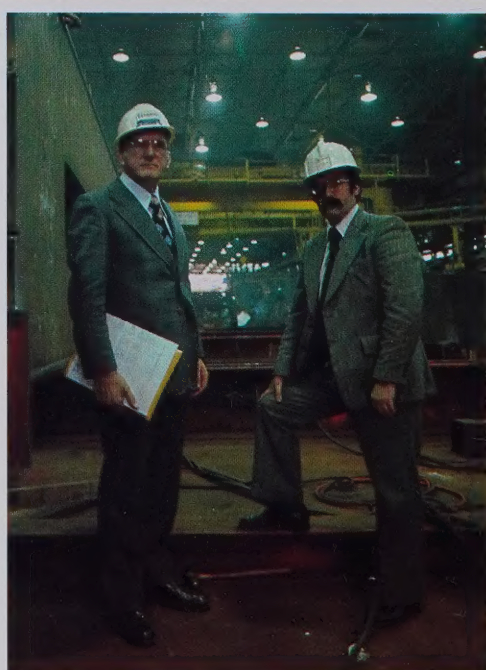
The Division entered 1977 with a healthy backlog which will provide a full shop load for the first half of the year. Contracts include a paper mill in Poland; a melt shop for Dofasco in Hamilton; the Ontario Hydro Thunder Bay generating station; a smelter furnace for Falconbridge Nickel; supply and installation of 10 furnaces and structural steel for a Texaco refinery in Ontario.

Export contracts in 1976 totalled $12 million. Foreign business is becoming increasingly competitive as a result of the continued slow recovery in major world markets. Currency devaluations and excess capacity in the steel industries of many countries also inhibit export potential.

Major capital expenditures in 1976 included the addition of a 300 ton and a 150 ton mobile erection crane and an overhead crane for the Toronto shop.

Next year's results will certainly not be as good as 1976. However, with a strong backlog, the Division expects a satisfactory year.





▲ *D. H. Breuls, Controller; and G. Ward-Hall, General Manager — Western Bridge Division.*

H. F. Campbell, Jr., Sales Manager; D. Sisley, Production Manager; and M. J. Perry, General Manager — Star Iron and Steel. ▶

Top picture on page 4
H. G. Armstrong, Contract Manager; S. S. Wilkinson, Chief Purchasing Agent; N. Dickinson, General Manager; W. W. Baigent, Manager of Engineering — Eastern Structural Division.

Bottom picture on page 4
T. McBarron, Rexdale Plant Manager — and A. Douglas, District Sales Manager — Eastern Structural Division.

Western Bridge Division

The Division performed well in 1976 in spite of poor markets in Western Canada. Western Bridge took a major share of the British Columbia business as well as a substantial amount in Alberta. Sales for the year were about the same as 1975.

Major contracts received in 1976 totalled $23.5 million. British Columbia contracts included fabricated steel for the Peace River and Seven Mile power projects and the Stikine and Kiskatinaw bridges as well as structural steel for the Cancel pulp mill and Afton Mines. In Alberta, the Division won the structural steel order for the Sundance Number Six unit of Calgary Power.

Major contracts to be completed in 1977 include the East African crane joint venture with Mechanical Division and the Calgary Power Sundance Number Five powerhouse.

The plant is fully booked for the first quarter of 1977. However, plant load for the balance of the year may decline since the British Columbia and Alberta markets are expected to be down at least 25 percent from 1976 levels.

Western Bridge holds a long term lease from the City of Vancouver for the plant property and has commenced major improvements to the plant and surrounding yards in conjunction with the City's plans for rehabilitation of the False Creek area.

Star Iron and Steel in Tacoma, Washington, performed well in its first year of operation as a part of Western Bridge Division and met the sales and profit projections made at the time of acquisition by Canron. Star has a reasonable backlog of work, including two King Post Cranes for the U.S. Navy and 1977 results should be very satisfactory.

The lower value of the Canadian dollar and association with Star Iron and Steel are likely to enhance the Division's opportunities for business in the Northwestern United States.

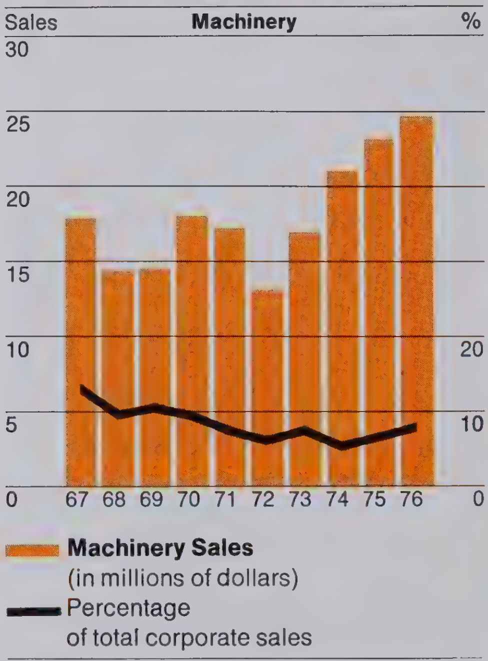
Mechanical Division

Profitability, cost performance and incoming orders for 1976 were the best in many years and enabled the Division to achieve corporate goals for return on investment. Export orders, including shipments of pulp mill equipment to Argentina and Cuba more than offset a lower volume of Canadian business.

Progress to date on the $17 million East African crane joint venture with Western Bridge Division for supply and erection of 56 dockside cranes for the ports of Dar es Salaam and Tanga in Tanzania and Mombasa in Kenya, has been excellent. Completion of this contract is scheduled for the first half of 1977.

Major bookings during the year included hydraulic gates for Baie James, pulp equipment for a mill in the Southern United States and a rolling mill contract for Reynolds Aluminum in Quebec. The backlog of $22 million going into 1977 is significantly higher than last year. Prospects that a decision will be made in 1977 on the route for the natural gas pipeline in Northwestern Canada enhances the outlook for the Division's pipeline valve manufacturing operation.

Construction of a 31,000 square foot heavy plate fabrication shop at the Division's Trois-Rivières, Québec, plant commenced late in 1976 and will be completed early in 1977. Other major capital expenditures included a computer controlled flame cutting machine and a universal milling machine, capable of milling 75 foot sections. The machines are being installed to handle the Baie James hydraulic gate contract.



Top picture
S. R. Palmer, General Manager; and W. H. Quenville, Manager of Operations — Mechanical Division.

Bottom picture
L. W. Greasley, Manager of Engineering; and P. A. Frylink, Controller — Mechanical Division.

▲ *E. W. Pearson, President and General Manager; J. M. Showalter, Vice-President, Sales; and T. W. Simpson, Vice-President, Controller and Treasurer — Pacific Press & Shear.*

H. J. Drews, Vice-President, Manufacturing; R. S. Butts, Regional Sales Manager, Mid West; and J. W. Bowman, Marketing Manager — Pacific Press & Shear. ▶

Pacific Press

Pacific Press & Shear, located in the United States, continued its steady growth as new sales and operating profit records were achieved in 1976. Demand for Pacific hydraulic presses and heavy plate shears continued at a high level throughout 1976 in spite of a generally slow market in the first half of the year for the machine tool industry.

Export sales from Pacific this year were double 1975 with shipments to Brazil, Mexico, Iran, India and Taiwan. Sales by the Division's Western European licensee remained low.

Manufacturing operations were at full capacity on a multi-shift basis throughout 1976. Expansion of the plant at Mount Carmel, Illinois, was completed at mid-year with the addition of two assembly and welding bays and machine tools. The expansion added 25 percent to the plant's capacity.

The Division has a strong and growing share of market for its broad range of hydraulic presses and shears. A wide variety of industries use Pacific machines including steel fabricators, shipbuilders and construction equipment, agriculture machinery and aircraft manufacturers. Several new products were developed during the year, notably the Trans-Stack system for handling steel plate which was introduced at the International Machine Tool Show in Chicago.

Predictions for the United States economy for 1977 are mixed. However, with a strong backlog of orders and increased plant capacity, Pacific looks for another successful year.

▲ *S. Kostaniuk, Sales Manager, Quebec Region; N. H. St. Denis, Controller; G. R. Masson, General Manager; and R. C. Gillstrom, Manager, Concrete Product Plants — Pressure Pipe Division.*

M. Roper, Assistant General Manager, Commercial; J. B. Flood, Works Manager, Cherry St., Toronto Plant; and R. J. Feltrin, Manager, Iron Product Plants — Pressure Pipe Division. ▶

Pressure Pipe Division

Sales and profits for the Pressure Pipe Division in 1976 were lower than the records set the previous year but still represented the second best performance in the Division's history.

Market conditions this year were generally slower than 1975. One of the main factors was the restraint in capital spending exercised by all levels of government. In Quebec, heavy expenditures for the Olympic Games reduced the amount of funds available for municipal public works projects.

In line with the Canadian Anti-Inflation program, prices were unchanged throughout the year and the Division absorbed material and production cost increases in a period of lower volume.

Major concrete pressure pipe projects completed during the year were the Pockwock water system for the Halifax Public Services Commission and a joint venture pipeline project in Tanzania, East Africa. A large quantity of ductile iron pipe was supplied to Redpath Sugar Limited for their irrigation project in the Ivory Coast, West Africa.

Work continued on the major City of Montreal large diameter pipe orders carried over from prior years. A further City of Montreal contract for 29,000 feet of 84 and 96 inch "Hyprescon" concrete pressure pipe was obtained and shipments commenced during the year. These contracts will be completed late in 1977 and early 1978.

In September construction began on a new "Hyprescon" concrete pipe and fittings plant at Cochrane, Alberta, to supply the Western Canada pressure pipe market. Total cost of this plant will be about $6 million and full production will begin in July 1977.

Developments continued on new uses for ductile iron pipe. The range of applications for abrasion-resistant pipe were expanded with the introduction of a higher hardness wear resistant pipe. Work also continued on the development of design thickness pipe and couplings for special industrial applications.

Plastics Division

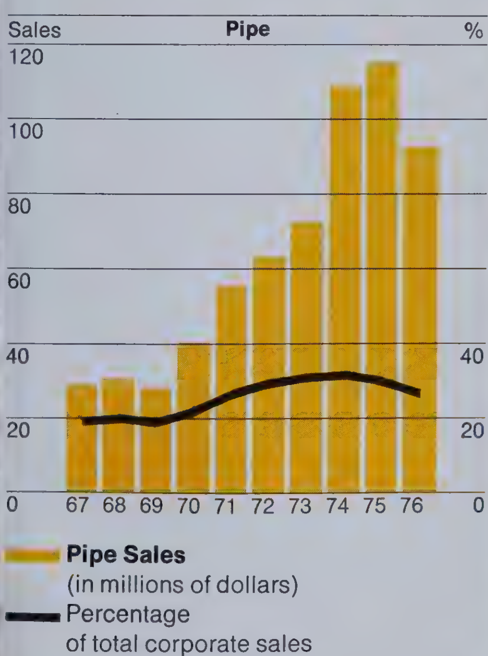
1976 proved to be a difficult year for the Plastic Pipe Division. Sales were moderately lower than last year, but profits were off substantially.

In the past, growth in plastic pipe markets in Canada has averaged 20%-25% annually. Growth in 1976 was down to about 10% resulting in intensive price competition. The Division's operations were also adversely affected in 1976 by general strikes in the construction industry and strikes at two of its plants.

Late in 1976 the Division acquired a pipe plant in Saint John, New Brunswick. This plant will strengthen service to customers in the Maritime provinces and reduce transportation costs. The acquisition also added a new product line of corrugated plastic drainage pipe for agricultural use.

Housing starts which are a key factor for many plastic pipe products are expected to decline and competition will continue to be vigorous in 1977. Canron holds a strong position in the plastic pipe industry and with expectations of more stable operating conditions and higher plant efficiencies in 1977, it should be a reasonable year for the Plastics Division.

▲ *G. Marineau, Technical Director; R. A. St. Louis, General Manager; R. J. Harbec, Manager of Operations — Plastics Division.*



◀ *A. Nadeau, Manager, Marketing Services; W. T. Hopkins, General Sales Manager; A. Zilio, Rexdale Plant Manager — Plastics Division.*

Foundry Division

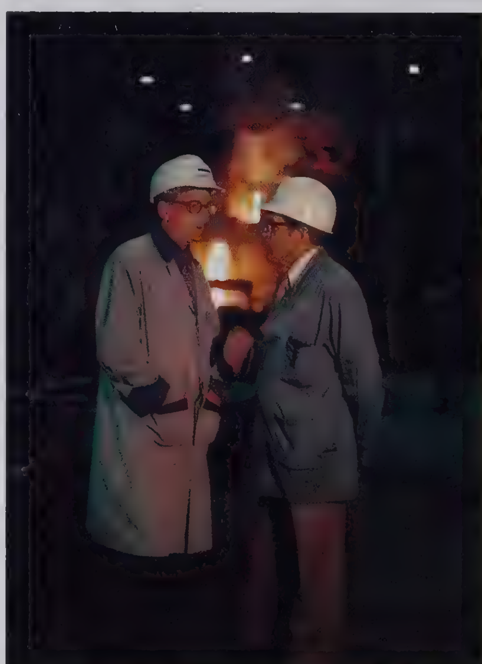
In a difficult economic climate, Foundry Division continued to operate at a satisfactory level in its main product areas. Sales in 1976 increased to a record level while operating profit was about the same as 1975. Increased sales of ingot moulds and stools to the steel industry exceeded the decline in other products.

Mining industry demand for mill liners met tonnage forecasts. Sales to the railway industry were about average while lower sales of street castings and hydrants reflected the slowdown in municipal spending and subdivision development.

Product development and cost reduction were the main thrust at the Alloy foundry in Hamilton. This foundry has entered the heat resistant stainless castings market and results attained by year-end were encouraging.

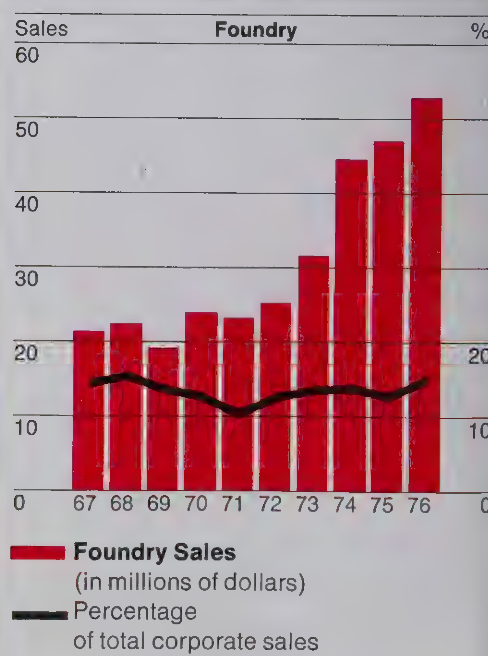
Over the past several years, the Division has made substantial capital investments and changes in operating procedures which have resulted in significant improvements in costs and operating efficiencies. In 1976 $800,000 of capital expenditures in the ingot mould plant were made to reduce costs and significantly improve the working environment. One unfortunate consequence of these improvements is that Anti-Inflation Board regulations do not permit retention of the resulting savings. This appears to be counter-productive to the need for Canadian business to increase its efficiency and maintain its competitiveness against foreign suppliers.

The outlook for 1977 depends to a large extent on prospects for the Canadian steel industry. The Division is starting the year with an order backlog of $7.2 million.



Top picture
T. Routledge, Technical Manager; J. M. Gandy, General Manager and E. Wakely, Works Manager, Burlington Street Plant, Hamilton, Ont. — Foundry Division.

Bottom picture
D. A. Whittle, Manager of Manufacturing; and R. Lacoste, Works Manager, Stuart St. Plant, Hamilton, Ont. — Foundry Division.



Canrep

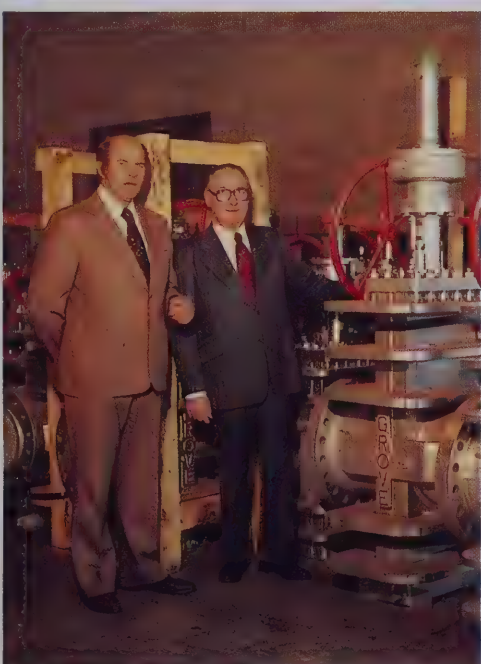
During the year, the Division's name was changed from Railway & Power Engineering Corporation to Canrep. The old name suggested a limited range of products and customers when in fact Canrep is one of the major Canadian distributors with a wide range of products for industry.

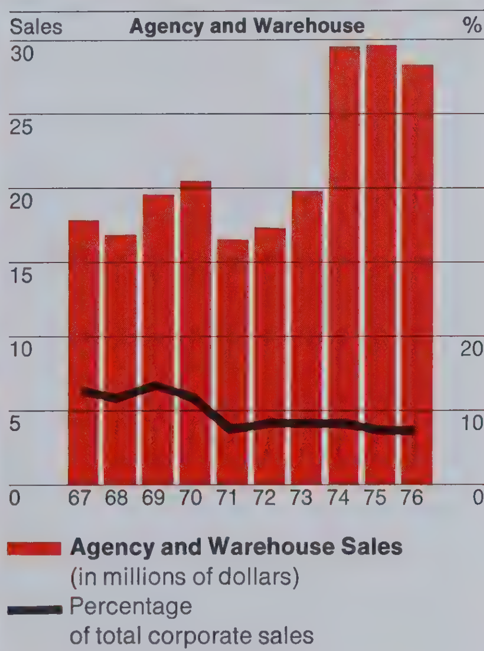
Other changes included a move of the Hamilton, Ontario, operation to larger facilities located close to the major industries of this area. The Flow Control department transferred its headquarters to Edmonton to be closer to the Canadian petroleum industry, the primary market for pipeline valves which Canrep distributes for Mechanical Division and other manufacturers. Flow Control also added a new line of valves for steam and process industries.

Sales revenue in 1976 was the same as last year with a change in mix. Slack demand for new railway rolling stock, prolonged strikes in key industries and postponement of major electrical utilities expansion, had an adverse impact on operating results.

Sales of Calvert bus duct, which is manufactured and sold by Canrep, were at a record high level. Large orders from manufacturing and process industries more than compensated for reduced deliveries to major utilities.

While early improvement in 1977 in the general economy is not anticipated, Canrep expects to benefit from substantial deliveries out of backlog to the transit industry, as well as increased activity in other market areas which were slowed by strikes in 1976.

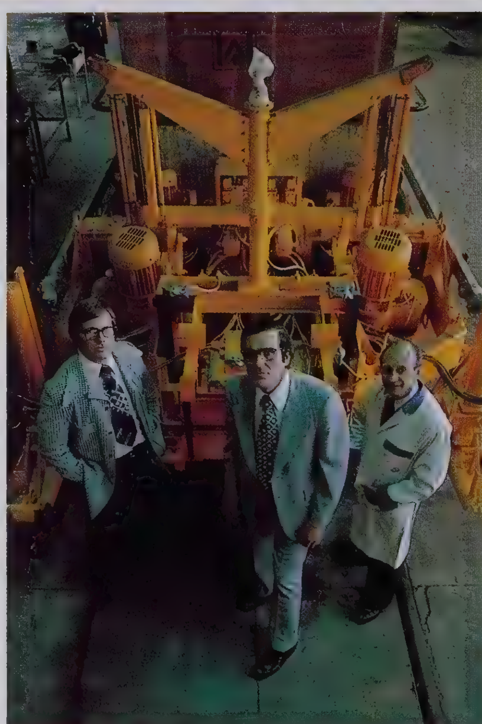




Top picture
W. B. Proudfoot, Vice-President and Manager, Transportation Products Division; and R. J. Conrath, Vice-President and General Manager — Canrep.

Bottom picture
K. J. Keir, Manager, Flow Control Division; and G. A. Cowan, Manager, Western Region — Canrep.

▲ *F. A. Glasser, Sales Engineering Manager, North and South America; G. D. Hooper, Vice-President and Group Controller; G. R. Grinton, Operations Manager, Columbia, S.C.; R. O. Walter, U.S. Sales Manager; G. L. Beatty, Manufacturing Manager, Columbia, S.C.; and A. F. Bygate, Vice-President, Group Marketing — Canron Railgroup.*



P. F. Stewart, Operations Manager, Toronto, Ont.; O. H. Riel, General Sales Manager, Canada; and R. Tetreault, Toronto Plant Superintendent — Canron Railgroup. ▶

Railgroup Tamper/Matisa

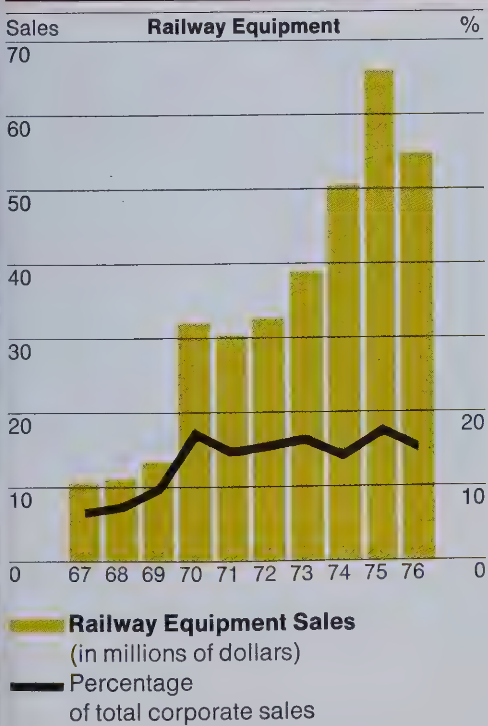
A second stage in the restructuring of the Company's activities in the railway maintenance of way and construction took place in 1976 with the formation of the Canron Railgroup. This change further integrated the development, engineering, manufacturing and marketing resources of Tamper in North America and Matisa in Europe.

Recognition of the importance of rail transportation on a country's economy has placed greater emphasis on the development of technologically advanced railway maintenance equipment. The Canron Railgroup expects to play a leading role in providing the railway industry with the products they require throughout the world.

Sales in 1976 were off from the previous year as a result of change in product mix while the effect of the general economic recession squeezed the capital budgets of many state-owned railways. Delays in funding decisions for railway rehabilitation by the U.S. government also restricted capital spending for many of the U.S. railways. These conditions led to severe price competition in several market areas.

A tangible result of the new Railgroup operation came in 1976 with the initial sale in North America of a Matisa developed P-811 track renewal train. This equipment is designed to remove old ties and rails and lay new ones in a continuous operation. The unit was sold to Canadian National Railway and will be delivered in 1977. An M-422 track geometry car, also developed in Europe by Matisa, has been demonstrated to a number of North American railways and is currently operating under contract in the United States.

R. Schumacher, Regional Sales Manager, Northern Europe, Poland; Y. L. Caffari, Commercial Director, Europe, Africa, Asia; P. Goël, General Manager, Matisa; W. Vieh, Operations Manager, Switzerland; W. H. Finger, Deputy Sales Director; and W. Walt, Assistant Operations Manager, Switzerland — Canron Railgroup.



Operating results for the year were mixed. Tamper profitability improved as a better balance was achieved between sales of new equipment and spare parts. The plant expansion at Columbia, completed in 1975, enabled more efficient production. On the other hand, reduced demand and ensuing lower production levels together with a three week strike at the main plant in Switzerland resulted in continued unsatisfactory performance at Matisa.

Commercial production of the new B-200 Matisa tamper was started in the second half of 1976 following excellent operating performance of the prototypes of this machine. Costs of the first production units were higher than planned and steps are being taken to correct this situation.

A new truss type tamping machine is being developed using the combined design and engineering capabilities of Matisa and Tamper. Work on the prototype machine was well advanced at year-end. The machine will be produced in a number of configurations to meet the requirements of different railway systems. The design will also enable the group to source material and component purchases in both Europe and North America, for manufacture in the United States and Switzerland.

The order backlog for the group was $17.8 million at the beginning of 1977. The level of new orders to date in 1977 from North American markets has been very strong and Tamper should enjoy another excellent year. The European and other Matisa markets still show the economic uncertainties which have prevailed over the past year. Nevertheless, the outlook in 1977 for the Matisa operations is more promising at this time.

Personnel

The Canadian Anti-Inflation program had profound influence on wage and salary administration, employee benefit planning, and labour negotiations during 1976. Settlements of collective agreements were delayed by several months due to uncertainties of interpretation and a lack of clear directives. Long delays between the conclusion of negotiations and the receipt of Anti-Inflation Board rulings left all agreements in abeyance for periods of up to eight months.

Negotiations were completed in 1976 on seventeen collective agreements, all for two-year periods. The majority contained monetary packages exceeding the AIB guidelines, with provision for adjustment which might subsequently be approved by the AIB. Present indications are that settlements in excess of the AIB guidelines will be rolled back. In each instance the final cost of monetary items must await the agreement of the parties on the specific method of complying with the AIB rulings.

A strike resulting from wage demands far in excess of AIB guidelines occurred at the St. Jacques plant of the Plastics Division. The forty employees involved were on strike for twenty-two weeks. A three-week work stoppage by approximately half of the employees at the Matisa plant in Switzerland took place following a reduction in the work force.

The careful attention given to job safety through programs of education and prevention, combined with active employee participation on safety committees, substantially reduced the number and severity of industrial accidents in 1976. The improvement of the work environment, with particular reference to the health and safety of employees, is strongly endorsed by management as a basic operating practice.

In-plant training programs, supplemented by classroom instruction, continue to serve the objective of maintaining a high level of competence in production and technical occupations. The Company's educational policy, which gives financial assistance to those taking courses in relevant subjects provided by accredited institutions, is a further means of encouraging employees to improve their skills and enhance their opportunities for advancement. A two-day corporate seminar, featuring discussion leaders from major industrial companies, was attended by 65 senior managers. The seminar program dealt with communications, health and safety, management development and labour relations.

Consistent with the Company's long range objectives in benefit planning and within the limits permitted by the Anti-Inflation regulations, past service pension benefits were increased effective January 1, 1977. Sixty-one employees retired in 1976 and the number of widows of employees receiving pensions increased by eleven. At year-end, long term disability benefits were being paid to seventy-three employees.

Welders at the Eastern Structural plant in Rexdale, Ontario, attend a classroom training session at the Division offices.

J. J. Bleau, Manager, Personnel and Industrial Relations, Quebec; and Y. Belec, Manager, Personnel and Industrial Relations, Mechanical Division.

Participation on monthly plant safety committees is part of employees' efforts to reduce industrial accidents. This meeting took place at the Company's Pressure Pipe plant in Rexdale, following a regular plant inspection by the committee.

Directors and Officers

Directors

W. J. Bennett
President,
Iron Ore Company of Canada,
Montreal

S. R. Blair
President and Chief Executive Officer,
The Alberta Gas Trunk Line
Company Limited,
Calgary

P. Côté
President,
Laiterie Laval Limitée,
Quebec

J. S. Dinnick
Honorary Chairman,
McLeod, Young, Weir & Company Limited,
Toronto

T. M. Galt
President,
Sun Life Assurance Company of Canada,
Montreal

J. C. Gilmer
Retired, formerly President and Chief
Executive Officer, Canadian Pacific
Air Lines, Limited,
Vancouver

J. D. Houlding
President and Chief Executive Officer,
Polar Gas Project,
Toronto

J. G. Kirkpatrick, Q.C.
Partner,
Ogilvy, Montgomery, Renault, Clarke,
Kirkpatrick, Hannon & Howard,
Montreal

H. J. Lang
Chairman and Chief Executive Officer,
Canron Limited,
Montreal

M. W. Mackenzie
Vice-Chairman,
Canron Limited,
Montreal

C. S. Malone
President and Chief Operating Officer,
Canron Limited,
Montreal

P. L. Paré
President and Chief Executive Officer,
Imasco Limited,
Montreal

C. Perrault
President,
Perconsult Ltd.,
Montreal

F. H. Sherman
President and Chief Executive Officer,
Dominion Foundries and Steel Limited,
Hamilton

Honorary Directors

A. D. McCall
H. E. McKeen

Committees of the Board of Directors

Executive

J. D. Houlding, J. G. Kirkpatrick,
H. J. Lang, M. W. Mackenzie,
C. S. Malone, P. L. Paré

Audit

J. S. Dinnick, J. C. Gilmer,
J. D. Houlding,
J. G. Kirkpatrick, C. Perrault

Salary & Benefit

P. Côté, T. M. Galt, J. G. Kirkpatrick,
H. J. Lang, P. L. Paré

Officers

H. J. Lang
Chairman and Chief Executive Officer

M. W. Mackenzie
Vice-Chairman

C.S. Malone
President and Chief Operating Officer

W. S. Cullens
Executive Vice-President

P. M. Draper
Vice-President and Secretary

W. I. Niles
Vice-President, Finance

B. E. Jackson
Group Vice-President

F. E. Miller
Group Vice-President

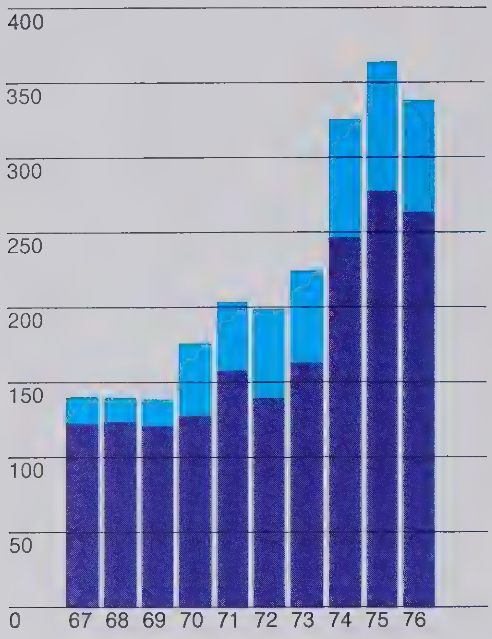
J. K. Stewart
Group Vice-President

C. M. Thomson
Vice-President

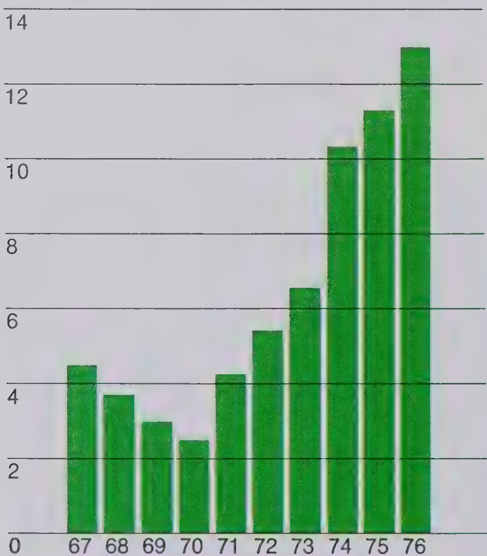
M. D. Calder
Controller

W. D. Moncur
Treasurer

Financial Review



Sales
(in millions of dollars)
Canadian operations
Foreign operations



Net Earnings
(in millions of dollars)

Summary

1976 operations were only slightly below the record financial results of 1975. However, the rates of gross margin and net earnings to sales were higher this year. The Company's financial position improved again with increased working capital and a major increase in capital assets.

Sales

Sales of $338.5 million for the year were $27.5 million or 7.5% lower than the record amount in 1975. An analysis by product classification is as follows:

(Millions)	1976	Increase (Decrease) from 1975
Foundry	**$ 52.7**	$ 5.7
Pipe	**92.4**	(25.4)
Railway equipment	**55.0**	(12.0)
Machinery	**24.9**	1.6
Structural	**84.9**	3.3
Distribution	**28.6**	(0.7)
	$338.5	$(27.5)

Over half of the apparent decrease in Pipe sales resulted from the elimination of the Warren Pipe Division in the last quarter of 1975. This transaction also accounts for the major portion of the drop in Pipe share of total sales, to 27% in 1976 compared with 32% last year. Foundry and Structural each increased their share of total sales by 3 percentage points to 16% and 25%.

A ten year history of sales by product classification is included with the Operations Review on pages 4-14 of this report.

Gross Margin

The 1976 margin of $64.9 million was about equal to last year, with the loss of margin on lower sales offset by improvement in the margin rate. Changes in product mix both in the major product groups and individual products within the operating divisions raised the gross margin rate to 19.2% against 17.8% for 1975.

Technical developments and product obsolescence resulting from introduction of new railway equipment by our European operation necessitated charges of about $2.0 million against current earnings for probable future losses on the sale and disposal of certain equipment and related parts inventories. This action, together with generally poor market conditions throughout the year, resulted in substantial operating losses by this Division.

The Company's Canadian operations are subject to the Anti-Inflation program. As a consequence of increased volume, and cost savings through additional investment and operating efficiencies, a major product line generated profits for 1976 in excess of the maximum amounts allowed by AIB. In accordance with our understanding of the AIB program and regulations, a significant part of the excess will be offset in 1977 in the normal course of business. For the amount not covered, a reserve was taken in the 1976 accounts and appropriate steps for elimination during 1977 have been planned.

Selling and Administrative Expenses

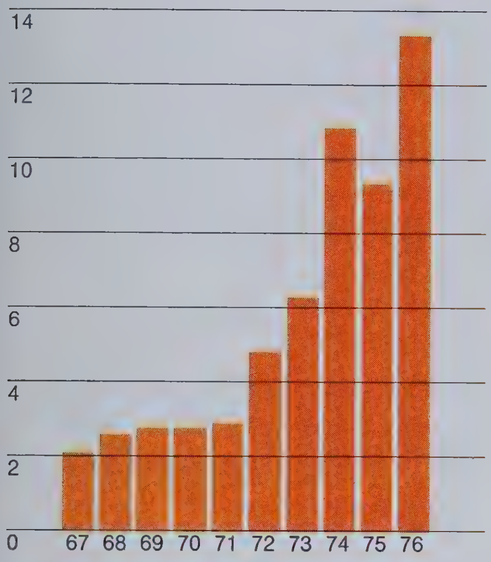
Selling and Administrative expenses totalled $33.5 million for the year, an increase of 3.6% over last year. These expenses were 9.9% and 8.8% of total sales for 1976 and 1975 respectively. The lower sales account for the increased rate of expenses.

Interest

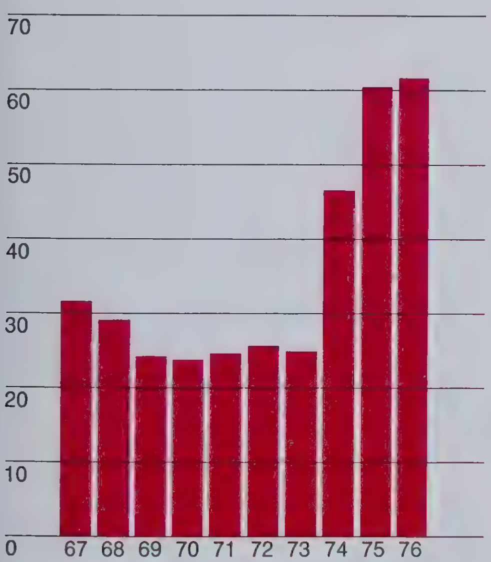
Interest expense of $4.4 million for 1976 was down $3.6 million or 45% from the previous year. Reductions in short-term borrowing which began in the second quarter of 1975 continued through the end of 1976. In addition to the impact of substantially lower levels of borrowing, most short-term interest rates declined in 1976.

The positive effect of these conditions was further highlighted by the fact that the Company for the first time in many years had a significant amount of funds invested in short-term deposits on which it earned $816,000 of interest income. This income was netted against the interest expense.

This year, the effective rate of interest on total debt was 8.4% compared with 9.6% for 1975.



Capital Expenditures
(in millions of dollars)



Working Capital
(in millions of dollars)

Earnings and Income Taxes

1976 earnings of $27.1 million before income taxes and extraordinary item (1975) were $2.4 million greater than 1975 with lower interest costs making the major contribution to this result.
The effective tax rate for 1976 was 52% compared with 45% last year. Losses on the European operations were not tax effected in arriving at the tax provision relating to taxable income for 1976. The losses are available as a deduction from future profits from the same source.

After tax earnings of $13.0 million for 1976 were 4.3% lower than 1975 (before the 1975 extraordinary item — $2.2 million loss). On the basis of net earnings after extraordinary item, the 1976 net earnings of $13.0 million were $1.7 million or 14.7% higher than the previous year.

This year's basic earnings per common share were $5.05 compared with 1975 earnings of $5.31 before and $4.41 after the extraordinary item. On a fully diluted basis the 1976 earnings were $4.82 against $5.03 before and $4.19 after the extraordinary item for 1975.

Working Capital

Working Capital increased by $1.2 million to $61.8 million at year end. This is the third successive year of improvement. The 1976 amount included $19.0 million in short-term investments, mainly bank term deposits, and $26.5 million of bank advances, leaving a net balance of $7.5 million. This net amount represents a reduction of $13.3 million from the $20.8 million of bank advances outstanding at the end of 1975.

Reductions of $3.2 million and $8.0 million in Accounts Receivable and Inventories reflect the lower volume of sales in 1976. The total of these assets corresponds to 36.8% of 1976 sales compared with 37.1% for the previous year.

The working capital ratio was 1.74:1 at Dec. 31, 1976, compared with 1.79:1 the previous year end. However, the quick ratio of cash, investments and accounts receivable to total current liabilities improved, indicating a gain for the year in the Company's liquidity.

Capital Expenditures

Capital expenditures in 1976 totalled $13.3 million, double the depreciation charges of $6.6 million for the year and $4.0 million higher than expenditures last year. The 1976 expenditures are the largest amount of capital spending for a single year in the history of the Company.

A major expansion of the Pacific Press plant in Mt. Carmel, Ill. was completed in 1976. Included in the 1976 expenditures is $4.8 million for work-in-progress on the Trois-Rivières, Québec, plant of Mechanical Division, and the new concrete pipe plant at Cochrane, Alberta. When completed in the first half of 1977, the cost for these two projects will total about $7.6 million.

It is the Company's practice to purchase outright the production facilities and equipment used in its operations. Some specialized construction equipment to handle specific contract requirements may be leased. The amount of leased equipment at the end of 1976 was nominal.

Long-Term Debt

Long-term debt was reduced $1.9 million during the year. Debt repayments totalled $2.3 million and the Company assumed a mortgage debt of $374,000. Sufficient sinking fund debentures were purchased in the open market and subsequently cancelled to meet the principal sinking fund requirement for both 1976 and 1977.

The purchase of debentures in advance of the statutory redemption dates reduced the amount of long-term debt shown as a current liability on the Statement of Financial Position.

The ratio of long-term debt to equity was 31:69 at the end of 1976 compared with 34:66 last year. This is consistent with the Company's objective of maintaining between 30% and 40% of long-term debt in its capital structure.

Distribution of Sales Dollar	**1976**	1975
Cost of Sales	**80.8¢**	82.2¢
Selling and Administrative Expenses	**9.9¢**	8.8¢
Interest Expense	**1.3¢**	2.2¢
Income Taxes	**4.2¢**	3.1¢
Earnings (before extraordinary item)	**3.8¢**	3.7¢
Extraordinary Item	**—**	0.6¢
Cash Dividends	**1.3¢**	1.0¢
Retained Earnings	**2.5¢**	2.1¢
	3.8¢	3.7¢

Shareholders' Equity

Common shares outstanding increased 42,680 in 1976 to 2,543,374 as a result of the conversion during the year of 10,670 shares of the 1974 Series Convertible Preferred shares (conversion rate is 4 for 1). The book value of each common share rose $3.40 to $27.56 at year-end reflecting the net increase of $8.6 million in retained earnings.

A total of 731,900 shares of the Company's common stock was traded during 1976 on the Montreal and Toronto stock exchanges. The volume of shares traded this year was more than triple the 1975 volume. There were 4,220 shareholders of record at the end of the year. This is an increase of 165 for the year.

Additional details of common share price range and trading volume are given with the Highlights on page 1.

In accordance with the retirement formula of the 1956 Series Preferred Share Agreement, all of the outstanding shares of this series were called on February 23, 1977, for redemption March 31, 1977, at $102 plus the accrued dividend of $0.87.

As a result of conversions of the 1974 Series Preferred shares, the number of outstanding shares of this issue was reduced to 36,562.

Dividends

Dividend payments in 1976 on common shares amounted to $1.60 per share, and were 32% of the net earnings for the year.

The quarterly common share dividend of $0.43 declared November 27, 1976, for payment January 3, 1977, was an increase of three cents per share in the quarterly dividend rate. The increase conforms with the current limitations of the Anti-Inflation Board.

A total of $280,000 for the year was paid in dividends on the 1956 Series and 1974 Series preferred shares.

Investor Relations Program

The Company's investor relations program is intended to ensure that adequate and timely information regarding the Company and its operations is available to the public, particularly those who presently or in the future hold securities of the Company. The program has been in operation for a full year and a review of the results to date indicate that it is successfully meeting the corporate objective.

Accounting Policies

A summary of the Company's accounting policies is included with the financial statements on page 22. All financial data presented in this annual report continues to be based on historical costs.

Limited progress on the subject of accounting for inflation appears to have been made in 1976 by the accounting profession. The United Kingdom is moving on the basis of the Sandilands Report. There are still areas of significant importance which require more work, and implementation in the U.K. will not come before 1979.

In North America, there is still no clear consensus as to the appropriate method of reporting the impact of inflation on operating results and financial position. The Securities and Exchange Commission of the United States now require supplementary data for 1976 from publicly traded companies having inventories and plant and equipment with a book value in excess of $100 million. The data pertains to replacement cost of inventory and property, plant and equipment. There is a wide choice of methods to determine replacement cost.

It is the Company's position that the shareholders and others who make use of published reports should be in a position to properly understand and interpret any major changes in the method of reporting. Until we are confident that there is a clear consensus for an acceptable method of accounting for inflation, we will continue to use historical data for our financial reports. The Company will continue to actively participate in research directed at establishing a suitable method of recognizing, in financial reports, the impact of inflation.

CANRON LIMITED

Consolidated Statement of Earnings

For the year ended December 31, 1976		(thousands of dollars) 1976	1975
		$	$
Sales (note 1)		**338,477**	365,950
Costs and expenses	Cost of sales	**273,537**	300,955
	Selling and administrative	**33,454**	32,286
	Interest	**4,403**	8,044
		311,394	341,285
Earnings before income taxes and extraordinary item		**27,083**	24,665
Income taxes		**14,100**	11,100
Earnings before extraordinary item		**12,983**	13,565
Extraordinary item (note 7)			(2,248)
Net earnings for the year		**12,983**	11,317
Earnings per common share	Basic earnings per common share –		
	Before extraordinary item	**$5.05**	$5.31
	Extraordinary item		(.90)
	Net earnings	**5.05**	4.41
	Fully diluted earnings per common share –		
	Before extraordinary item	**4.82**	5.03
	Extraordinary item		(.84)
	Net earnings	**4.82**	4.19

Consolidated Statement of Retained Earnings

For the year ended December 31, 1976		(thousands of dollars) 1976	1975
		$	$
Balance – Beginning of year		**51,613**	44,122
	Net earnings for the year	**12,983**	11,317
		64,596	55,439
	Dividends –		
	Preferred shares	**280**	340
	Common shares	**4,109**	3,486
		4,389	3,826
Balance – End of year		**60,207**	51,613

See Notes
to Consolidated Financial Statements
on pages 23 to 25

CANRON LIMITED

Consolidated Statement of Financial Position

as at December 31, 1976		(thousands of dollars)	
		1976	1975
		$	$
Current assets	Cash	**998**	869
	Short-term deposits	**19,033**	
	Accounts receivable	**63,762**	66,986
	Inventories (note 2)	**60,918**	68,946
	Prepaid expenses	**873**	713
		145,584	137,514
Current liabilities	Bank advances	**26,574**	20,772
	Accounts payable and accrued liabilities	**49,970**	44,280
	Dividends	**1,154**	1,081
	Income taxes – current	**1,374**	5,881
	– deferred relating to contracts	**4,076**	3,818
	Long-term debt maturing within one year	**672**	1,162
		83,820	76,994
Working capital		**61,764**	60,520
Fixed and other assets	Property, plant and equipment – at cost, less accumulated depreciation (note 3)	**49,758**	42,044
	Long-term accounts receivable	**834**	1,781
	Patents – at cost, less amortization	**570**	820
	Unamortized debenture discount	**520**	557
		51,682	45,202
Capital employed		**113,446**	105,722
Represented by			
Deferred income taxes		**6,116**	5,203
Long-term debt (note 4)		**33,056**	34,472
Shareholders' equity	Preferred shares (note 5)	**4,184**	5,618
	Common shares (note 6)	**9,883**	8,816
	Retained earnings (note 5)	**60,207**	51,613
		74,274	66,047
		113,446	105,722

Signed on behalf of the Board

H. J. Lang
Director

C. S. Malone
Director

See Notes
to Consolidated Financial Statements
on pages 23 to 25

CANRON LIMITED

Consolidated Statement of Changes in Financial Position

	For the year ended December 31, 1976	(thousands of dollars)	
		1976	1975
		$	$
Source of funds	Net earnings before extraordinary item	**12,983**	13,565
	Depreciation and amortization	**6,875**	6,790
	Deferred income taxes	**913**	939
	Provided from operations	**20,771**	21,294
	Proceeds from disposals of fixed assets	**295**	677
	Decrease in long-term accounts receivable	**947**	693
	Proceeds from issue of long-term debt		3,500
	Recovery of income taxes on the sale of assets (note 7)		2,250
		22,013	28,414
Use of funds	Fixed assets — additions	**13,306**	9,420
	— arising from acquisitions	**1,291**	
	Reduction of long-term debt – net	**1,416**	1,281
	Redemption of preferred shares – 1956 Series	**367**	121
	Dividends	**4,389**	3,826
	Reduction of deferred income taxes		115
		20,769	14,763
Increase in working capital		**1,244**	13,651
Working capital – Beginning of year		**60,520**	46,869
Working capital – End of year		**61,764**	60,520

Auditors' Report to the Shareholders

We have examined the consolidated statement of financial position of Canron Limited as at December 31, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the Company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand
Chartered Accountants

February 10, 1977

CANRON LIMITED

Summary of Significant Accounting Policies

For the year ended December 31, 1976

Consolidation

The consolidated financial statements include the accounts of all subsidiaries from the date of acquisition. All inter-company balances and transactions are eliminated.

Revenue Recognition

Sales and earnings are recorded when the goods are shipped or the services provided to the customer, or when a construction contract is substantially complete. The concept of completed contracts is particularly applicable to the structural steel divisions which accounted for 25% of total sales in 1976. Construction contracts frequently extend over several years, resulting in significant fluctuations in quarterly and annual sales and profit from this source.

Research and Development

Expenditures for product development and research are expensed as incurred.

Income Taxes

Income taxes are based on the earnings reported in the consolidated financial statements. Timing differences for payment of taxes result from deferments of income on contracts in progress, as well as from tax incentives such as accelerated depreciation. Taxes arising from these differences are accounted for as deferred income taxes and are classified as current or non-current liabilities, depending on the nature of the asset against which the differences arise. These timing differences do not reduce the final amount of taxes payable.

Net Earnings per Share

Basic earnings per common share are computed on the basis of the average number of shares outstanding during the period, after deducting the dividends on the preferred shares. The average number of shares used for the computations were 2,516,403 and 2,491,066 for 1976 and 1975 respectively.

The fully diluted earnings per common share are computed as though the common shares related to conversions of the preferred shares – 1974 Series had actually been issued at the beginning of the year.

Inventory Valuation

Inventories are valued at the lower of cost or net realizable value. Costs are determined principally on a first in, first out (FIFO) basis, and manufactured inventories include costs for materials, labour and factory overhead. Costs incurred to date on uncompleted contracts are classified as work in process. Progress billings on contracts are deducted from inventories.

Fixed Assets

Land, buildings, plants and equipment are recorded at cost.

Provision for depreciation is based on the estimated useful life for each major classification of assets, calculated principally on the diminishing balance method. Rates range from 2.5% for some buildings to 30% for automotive and mobile construction equipment.

Maintenance and repairs, and minor replacements are expensed as incurred. Improvements which significantly increase the useful life of the asset are capitalized.

Patents

Patents purchased in prior years are being amortized over twelve years.

Foreign Currency Translation

The net working capital of all foreign subsidiaries including those located in the United States, Switzerland and Australia is translated into Canadian dollars at the rates of exchange in effect at year-end. The remainder of the assets and liabilities are translated at historical exchange rates. Income and expenditures, except for depreciation and amortization, of the foreign subsidiaries on the statement of earnings, are translated at exchange rates effective throughout the year.

Exchange Gains and Losses

Realized gains and losses on foreign exchange transactions are recorded in the period in which they are incurred. Unrealized gains net of unrealized losses are deferred.

CANRON LIMITED

Notes to Consolidated Financial Statements

For the year ended December 31, 1976

1. Product Classification

	1976	1975
	%	%
Sales are classified as follows:		
Foundry	16	13
Pipe	27	32
Machinery	8	7
Railway	16	18
Structural steel	25	22
Agency and warehouse	8	8
	100	100

2. Inventories

	(thousands of dollars)	
	1976	1975
	$	$
Finished products	23,731	24,980
Work in process	74,346	64,921
Raw materials and supplies	34,696	35,433
	132,773	125,334
Less: Progress billings	71,855	56,388
	60,918	68,946

3. Property, Plant and Equipment

		(thousands of dollars)		
		1976		1975
	Cost	Accumulated depreciation	Net	Net
	$	$	$	$
Land	4,012		4,012	3,800
Buildings	35,382	16,883	18,499	15,669
Machinery and equipment	77,427	50,180	27,247	22,575
	116,821	67,063	49,758	42,044

4. Long-Term Debt

	1976 (thousands of dollars)	1975
	$	$
Sinking fund debentures –		
Canron Limited		
6¾% Series D due May 15, 1987	**10,200**	11,258
9¼% Series E due April 1, 1994	**15,350**	16,000
Matisa Matériel Industriel S.A.		
5½% due December 15, 1983	**1,134**	1,178
8½% due October 15, 1986	**1,500**	1,500
Canron Southern, Inc.		
8½% to 8⅞% due in annual instalments to 1994	**3,100**	3,300
	31,284	33,236
Mortgages		
3% to 11⅜% due at various dates to 1990	**2,444**	2,398
	33,728	35,634
Maturing within one year	**672**	1,162
Long-term	**33,056**	34,472
	33,728	35,634

Sinking fund requirements and long-term debt maturities in the next five years are: 1977 – $672,000; 1978 – $1,780,000; 1979 – $1,760,000; 1980 – $1,872,000; 1981 – $1,880,000. Bonds repurchased amounting to $1,250,000 in excess of the cumulative sinking fund requirements at December 31, 1976 have been applied against the 1977 sinking fund.

5. Preferred Shares

	1976 (thousands of dollars)	1975
	$	$
Authorized –		
100,000 preferred shares of the par value of $100 each, all of which have been issued		
Outstanding and fully paid –		
5,277 4¼% cumulative redeemable preferred shares – 1956 Series	**528**	895
36,562 $6.00 cumulative convertible redeemable preferred shares – 1974 Series	**3,656**	4,723
	4,184	5,618

The 1974 Series preferred shares are each convertible at the option of the holder until April 1, 1984 into four fully paid common shares. A total of 10,670 shares were converted in 1976. The 1974 Series preferred shares are redeemable at the option of the company out of the Retirement Fund at $103 or otherwise at $106. Under the terms of the prospectus, the Retirement Fund will be established commencing in 1985.

A total of 3,673 shares in 1956 Series preferred shares with a par value of $367,300 were redeemed in 1976. The remaining outstanding 1956 Series will all be redeemed during 1977 at $102.

The retained earnings include an amount of $3,747,800 which has been set aside in accordance with the requirements of the Canada Corporations Act equal to the par value of the preferred shares redeemed to date.

Notes to Consolidated Financial Statements

6. Common Shares

	(thousands of dollars)	
	1976	1975
	$	$
Authorized –		
6,000,000 common shares of no par value		
Issued and fully paid –		
2,543,374 common shares	**9,883**	8,816

As a result of conversions of preferred shares – 1974 Series, 42,680 common shares were issued during 1976. As at December 31, 1976 there were 146,248 common shares reserved for issue against conversions of the outstanding preferred shares – 1974 Series.

7. Extraordinary Item

The 1975 extraordinary item of $2,248,000 arose from the sale of the Warren Pipe Division and comprises a loss of $4,498,000 less income tax reductions of $2,250,000.

8. Pension Plans

Under the pension plans of the Company and certain subsidiaries there existed an unfunded past service pension liability estimated at $3,450,000. This liability including interest is being funded by equal annual instalments of $360,000 to December 31, 1990 and $20,000 thereafter to December 31, 1996.

9. Anti-Inflation Act

Under the terms of the Anti-Inflation Act and Regulations which became effective October 14, 1975, the Company is subject to restraint of profit margins (prices), compensation and dividend payments on its Canadian operations.

10. Statutory Information

	(thousands of dollars)	
	1976	1975
	$	$
The following items are included in the consolidated statement of earnings:		
Depreciation	**6,588**	6,501
Amortization of – patents	**250**	252
– debenture discount	**37**	37
Interest on long-term debt	**2,930**	3,021
Remuneration of directors	**54**	55
Remuneration of officers	**1,134**	1,033

	1976	1975
Number of directors and officers:		
Directors	**14**	14
Officers	**12**	11
Officers who are directors	**3**	3

Ten-Year Review

	(dollar amounts in thousands except per share figures)	1976	1975
For the years ended December 31	Sales	$ 338,477	$ 365,950
	Cost of sales	$ 273,537	300,955
	Selling and administrative expenses	$ 33,454	32,286
	Interest	$ 4,403	8,044
	Income taxes	$ 14,100	11,100
	Earnings (before extraordinary)	$ 12,983	13,565
	As percentage of sales	3.8%	3.7%
	Extraordinary item	—	(2,248)
	Net earnings	$ 12,983	11,317
	Earnings per common share		
	Earnings (before extraordinary)	$ 5.05	5.31
	Extraordinary item	—	(0.90)
	Dividend paid per common share	$ 1.60	1.30
	Capital expenditures	$ 13,306	9,420
	Depreciation	$ 6,588	6,501
	Return on common shareholders' equity	18.1%	18.2%
	Return on capital employed	11.4%	10.7%
Year-End Position	Current assets		
	Bank term deposits	$ 19,033	
	Accounts receivable	$ 63,762	66,986
	Inventories	$ 60,918	68.946
	Other	$ 1,871	1,582
	TOTAL	$ 145,584	137,514
	Current liabilities		
	Bank advances and notes payable	$ 26,574	20,772
	Accounts payable and accrued liabilities	$ 49,970	44,280
	Other	$ 7,276	11,942
	TOTAL	$ 83,820	76,994
	Working capital	$ 61,764	60,520
	Current ratio	1.7	1.8
	Net property plant and equipment	$ 49,758	42,044
	Other assets	$ 1,924	3,158
	Capital employed	$ 113,446	105,722
	Deferred income taxes	$ 6,116	5,203
	Long-term debt	$ 33,056	34,472
	Shareholders' Equity		
	Preferred	$ 4,184	5.618
	Common	$ 70,090	60,429
	TOTAL	$ 74,274	66,047
	Book value per common share	$ 27.56	24.16
	Number of common shareholders	4,220	4,055
	Common shares outstanding	2,543,374	2,500,694
	Number of employees	5,823	6,285
	Order backlog at year end	$206,105	192,612

1974	1973	1972	1971	1970	1969	1968	1967
$ 325,718	$ 223,857	$ 199,420	$ 205,248	$ 176,698	$ 138,088	$ 141,042	$ 142,011
270,192	186,788	167,063	175,454	150,466	117,790	120,071	118,134
27,553	21,835	19,580	18,550	16,734	13,466	12,226	13,184
7,808	4,139	3,356	3,840	4,652	2,337	1,852	2,061
8,953	4,550	4,040	3,184	2,133	1,985	3,190	4,230
11,212	6,545	5,381	4,220	2,713	2,510	3,703	4,402
3.4%	2.9%	2.7%	2.1%	1.5%	1.8%	2.6%	3.1%
(890)	—	(30)	—	(180)	493	—	—
10,322	6,545	5,351	4,220	2,533	3,003	3,703	4,402
4.39	2.60	2.13	1.66	1.05	0.97	1.45	1.72
(0.36)	—	(0.01)	—	(0.07)	0.20	—	—
1.20	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10,870	6,306	4,762	2,877	2,767	2,801	2,601	2,109
5,640	4,838	4,511	4,371	4,134	3,217	3,324	4,108
19.1%	14.1%	12.6%	10.6%	6.5%	7.8%	9.7%	11.9%
10.8%	9.4%	7.8%	6.2%	3.7%	4.7%	6.0%	6.8%
76,524	49,129	42,491	38,518	38,452	36,794	26,747	28,326
80,470	50,001	36,942	37.590	42,445	39,325	27,573	27,905
2,157	2,078	1,687	2,069	1,619	1,551	1,693	1,806
159,151	101,208	81,120	78,177	82,516	77,670	56,013	58,037
51,394	34,842	20,145	19,772	23,148	21,111	3,406	4,711
51,497	32,648	26,144	26,585	28,799	24,427	14,847	15,391
9,391	8,683	9,055	7,356	6,774	7,825	8,117	6,145
112,282	76,173	55,344	53,713	58,721	53,363	26,370	26,247
46,869	25,035	25,776	24,464	23,795	24,307	29,643	31,790
1.4	1.3	1.5	1.5	1.4	1.5	2.1	2.2
44,300	39,773	37,141	39,493	40,987	34,725	28,516	29,049
4,140	5,037	5,286	4,339	4,536	5,263	4,053	3,738
95,309	69,845	68,203	68,296	69,318	64,295	62,212	64,577
4,379	3,920	3,404	2,800	2,513	2,810	3,000	3,326
32,253	18,386	21,187	24,554	27,405	22,000	20,081	22,811
6,003	1,652	1,709	1,825	1,934	1,978	2,051	2,404
52,674	45,887	41,903	39,117	37,466	37,507	37,080	36,036
58,677	47,539	43,612	40,942	39,400	39,485	39,131	38,440
21.15	18.43	16.83	15.71	15.05	15.07	14.89	14.47
4,044	4,141	4,301	4,687	4,847	4,926	5,072	5,318
2,490,154	2,489,622	2,489,622	2,489,622	2,489,622	2,489,622	2,489,622	2,489,622
7,649	6,573	5,655	6,114	6,655	5,197	5,181	5,224
217,320	131,223	71,558	68,574	88,084	86,501	40,543	47,845

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Western Bridge Division

G. Ward-Hall, General Manager
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145 West First Avenue
Vancouver, B.C.
V5Y 1A2

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Mechanical Division

S. R. Palmer, General Manager
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